
FROM PROTECTIONISM TO LIBERALIZATION: FOREIGN DIRECT INVESTMENT POLICIES IN INDIA AND SRI LANKA

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ABSTRACT

This study analyzes the paradigm shift from inward-oriented protectionism to market-driven liberalization in India and Sri Lanka and evaluates how these evolving frameworks influence national economic resilience. While Sri Lanka initiated reforms early in 1977 to dismantle its import-substitution regime, India underwent structural transformation in 1991, dismantling the "License Raj" and transitioning from state-led central planning toward commercial decision-making. Each country used prudential policy changes as a bridge between chronic balance-of-payments troubles (and the corresponding need to access world capital markets). India also used the test of strength to replace another rigid system, the Foreign Exchange Regulation Act (FERA), with a more flexible, even if not ideal, Foreign Exchange Management Act (FEMA) in July 2000, enabling current account convertibility. It has led to establishing a dual-governance architecture administered by the DPIIT (Department for Promotion of Industry and Internal Trade) and RBI, which was later expanded when entry channels were opened through automatic route. In contrast, Sri Lanka deployed export processing zones along with constitutional safeguards against arbitrary nationalization. In the beginning, its exposure and early degree of openness often tussled with chronic current account deficits, mounting debt, and bureaucratic delays. Sri Lanka is already bound by IMF mandates set under the Economic Transformation Act of 2024 which ties the government to structured post-crisis targets after it suffers post-crisis reforms. Also, under NPP (2024–2026), a major key is transformation into a rule-based investment platform to restore investors' confidence. The business case highlights that not all liberalization stories are the same. Instead, it is a context-dependent process that is predominantly determined by the underlying quality of its institutions and a country's ability to absorb outward foreign capital flows without losing macroeconomic equilibrium. This research paper is part of the author's Ph.D. research work. An earlier, abbreviated version of this research was presented as an abstract at the ICILRI, 2026 held in Hyderabad.

Keywords: FDI Policies, FEMA, India, Sri Lanka.

I. Introduction

This study highlights the shift in both India and Sri Lanka, from protectionism to market-driven liberalization, and assesses how changing paradigms and perspectives on organized labor can shape economic resilience.¹ By analyzing the evolution of their integrated economic models, this study explores how these countries have utilized policy reforms to connect with global capital markets and create geopolitical resilience.² Although India first embarked on its structural transformation in 1991, with the aim of exploiting trade openness, Sri Lanka started earlier (in the context of liberalization reforms) in 1977, when the import-substitution regime had been functioning for a long period.³ While these transitions have different timeframes, both countries can leverage them into durable structural competitiveness that expedites solutions to persistent balance-of-payments difficulties.⁴ But these outward-looking strategies can only function as long as the institutions upon which they are based are stable and capable of coping with the geopolitical dynamics that characterize their regions.⁵ In more detail, these discrepant development experiences—from India’s post-1991 structural integration till Sri Lanka’s earlier shift toward trade and service account liberalization—have had a significant determining influence over the prevailing capital inflow trends with regard to the relative efficacy of attracting FDI under contrastive regimes of macroeconomic stability and volatility.⁶ These divergent paths underscore that while the injunctions against an economic opening may lead to transitory success during which resource characteristics are harnessed without overstressing institutions, they also emphasize how a precariously maintained balance has usually only succeeded through high-quality institutions facilitating reform modalities envisaged to ensure price stability during “big bang” liberational attempts irrespective of informal rules instituted for private investor-space based transfers.⁷ These reforms show that even though they were

¹ Rathnayake, S. (2023) “A Call For A Change Of Focus In India’s FDI Policies: Lessons From The Recent Economic Crisis In Sri Lanka,” *GARI International Journal of Multidisciplinary Research*, 9(3). doi:10.63572/gari5138.

² Pathiraja, M. and Tombesi, P. (2023) “Circularity by stock in Sri Lanka: Economic necessity meets urban fabric renovation,” *Frontiers in Built Environment*, 8. doi:10.3389/fbuil.2022.1098389.

³ Mudiyansele, M.M.R., Epuran, G. and Tescaşiu, B. (2022) “The Causal Links between Trade Openness and FDI Inflows in Sri Lanka,” *Bulletin of the Transilvania University of Brasov Series V Economic Sciences*, pp. 39–50. doi:10.31926/but.es.2022.15.64.2.5.

⁴ NPG, S. and Liu, H. (2018) “The Effect of Foreign Direct Investment on Industrial Sector Growth: Evidence from Sri Lanka,” *Journal of Asian Development*, 4(2), pp. 88–88. doi:10.5296/jad.v4i2.13339.

⁵ Iqbal, B.A., Rahman, M.N. and Yusuf, N. (2018) “Determinants of FDI in India and Sri Lanka,” *Foreign Trade Review*, 53(2), pp. 116–123. doi:10.1177/0015732517734751.

⁶ Wadhwa, H. (2025) “Trade Liberalization and Its Impact on FDI Inflows in India: Evidence from 1991–2023,” *International Journal of Social Science and Economic Research*, 10(12), pp. 6330–6343. doi:10.46609/ijsser.2025.v10i12.009.

⁷ Mudiyansele, M.M.R., Epuran, G. and Tescaşiu, B. (2022) “The Causal Links between Trade Openness and

mandated by IMF, the conviction and honesty in their implementation in a phased manner decided their economic success.⁸ In India it took the form of de-licensing the entire industrial system whereas in Sri Lanka, the focus was on establishing export processing zones.⁹

II. The Post-Independence Restrictive Era: Codifying Economic Sovereignty and Capital Controls

India's FERA regime: The Foreign Exchange Regulation Act 1973 embedded a very strict system of regulatory control, which sought to effectively monopolise government control over the market for foreign currencies, as to ensure there remains no capital flight and native industries are protected.¹⁰ Such a hostile environment was compounded by equity mandates — like the law that instructed multinational corporations to dilute foreign ownership to forty percent — and drove several leading global firms away from the Indian market altogether.¹¹

Sri Lanka's Import-Substitution Regime: Motivated in equal measure by balance-of-payments crises and aspirations for viable self-sufficiency, policymakers set in cement a state-driven development model that relegated the private enterprise through mass nationalization and other severe import controls.¹² At the same time, the state was busy using banking to prioritize government borrowing over business lending, making commercial financing at rates where capital formation for import substitution could have taken place impossible.¹³

The Greater Colombo Economic Commission (GCEC) to the Board of Investment (BOI) Act: The establishment of this body in 1978 facilitated the creation of export processing zones, which served as the primary instrument for attracting initial foreign direct investment by

FDI Inflows in Sri Lanka," *Bulletin of the Transilvania University of Brasov Series V Economic Sciences*, pp. 39–50. doi:10.31926/but.es.2022.15.64.2.5.

⁸ Choudhury, P. and Khanna, T. (2014) "Charting Dynamic Trajectories: Multinational Enterprises in India," *The Business History Review*, 88(1), pp. 133–169. doi:10.1017/s000768051300144x.

⁹ He, Y. (2020) "The Developmental Government and Economic Development in Sri Lanka 2005–2019: Lessons from East Asian Developmentalism," *Istanbul Üniversitesi Sosyoloji Dergisi / İstanbul University Journal of Sociology*, 40(2). doi:10.26650/sj.2020.40.2.0051.

¹⁰ Srivastava, M. (2023) "Economic Reforms in India and Challenges in the 21st Century," *The Social ION*, 12, pp. 67–73. doi:10.5958/2456-7523.2023.00008.3.

¹¹ Epstein, G., Grabel, I. and Sundaram, J.K. (2003) "Capital Management Techniques in Developing Countries: An Assessment of Experiences from the 1990's and Lessons for the Future," *SSRN Electronic Journal* [Preprint]. doi:10.2139/ssrn.393620.

¹² Athukorala, P. (2024b) "The Sri Lankan Economy," in *Routledge eBooks*. Informa, pp. 162–175. doi:10.4324/9781003300991-17.

¹³ Sen, P. (2007) "Capital Inflows, Financial Repression, And Macroeconomic Policy In India Since The Reforms," *Oxford Review of Economic Policy*, 23(2), pp. 292–310. doi:10.1093/icb/grm010.

exempting enclave industries from broader trade restrictions.¹⁴ This shift signaled a fundamental move toward an export-oriented growth strategy, which sought to balance the limitations of the domestic market through direct integration into global manufacturing value chains.¹⁵

Statement on India's Industrial Policy of July 24, 1991: This landmark policy effectively dismantled the pervasive "License Raj" by abolishing industrial licensing for most sectors, thereby removing deep-seated barriers to entry that had previously stifled private and foreign participation.¹⁶ This structural pivot transitioned the economy from state-led central planning toward a framework that incentivized commercial decision-making.¹⁷

Replacing the more repressive Foreign Exchange Regulation Act, this legislation marked a movement from policing to management of foreign exchange, and symbolised India's desire for current account convertibility.¹⁸ Through legislative reform, we acquired the regulatory flexibility necessary to facilitate capital inflows and communicate to global investors about the potential curtailment of administrative discretion in approving cross-border transactions.¹⁹ In the same vein, Sri Lanka had its own episodes of restructuring later in which domestic market consolidation played an important role through eliminating exchange controls to install full currency convertibility as well as building competition laws consistent with global standards.²⁰

Constitutional Protection for Foreign Investment Article 157 of Sri Lanka's Constitution and the Safety of Foreign Wealth section provide a constitutional bulwark by guaranteeing that foreign investment agreements are enforceable in law thus providing protection against

¹⁴ Liyanage, E. (2016) "Determinants of Capital Inflows: Evidence from Sri Lanka," *Staff Studies*, 44, pp. 1–1. doi:10.4038/ss.v44i1-2.4692.

¹⁵ Venkatramanan, D.D. (2024) "Economic Reforms in Asia: India's 1991 LPG Policy vs. China's 1978 Approach," *International Journal for Research in Applied Science and Engineering Technology*, 12(7), pp. 1397–1401. doi:10.22214/ijraset.2024.63617.

¹⁶ Anderson, S.W. and Lanen, W.N. (1999) "Economic Transition, Strategy And The Evolution Of Management Accounting Practices: The Case Of India," *Accounting Organizations and Society*, 24, pp. 379–412. doi:10.1016/s0361-3682(97)00060-3

¹⁷ Aghion, P. *et al.* (2008) "The Unequal Effects of Liberalization: Evidence from Dismantling the License Raj in India," *American Economic Review*, 98(4), pp. 1397–1412. doi:10.1257/aer.98.4.1397.

¹⁸ Choudhury, P. and Khanna, T. (2014) "Charting Dynamic Trajectories: Multinational Enterprises in India," *The Business History Review*, 88(1), pp. 133–169. doi:10.1017/s000768051300144x.

¹⁹ Sen, A. (2018) "Editorial Introduction: Managing The Indian Economy," *DECISION*, 45(2), pp. 101–103. doi:10.1007/s40622-018-0188-6.

²⁰ Wickramasinghe, U. (2019) "The Enabling Policy and Regulatory Framework as a Foundation for Developing the Supply-Capacity of Sri Lanka," *Vidyodaya Journal of Humanities and Social Sciences*, 2. doi:10.31357/fhss/vjhss.v02i00.4046.

arbitrary nationalization without compensation.²¹ The constitutional guarantee could be seen as a continuation of an apparently strategic approach by the state to comfort international investors, following at least one case where local policy had changed but likely disabled any foreign involvement.²² It specifies that bilateral investment treaties (but the effectiveness of these outward-oriented treaties) once enacted by Parliament with a two-thirds majority, cannot be amended or terminated by subsequent ordinary law.²³

III. Harmonization, Sectoral Caps, and Modern Regulatory Disparities

This administrative division of labour creates a top-down structure in which the Department for Promotion of Industry and Internal Trade determines sectoral limits and points of entry, whilst featuring critical oversight through rules under the Foreign Exchange Management Act provided by the Reserve Bank of India over FDI.²⁴ While the broad regulatory structure provided by the Foreign Exchange Management Act (FEMA) (Non-Debt Instruments) Rules as well as the Consolidated FDI Policy issued on 5th October, 2020 by the Department for Promotion of Industry and Internal Trade (DPIIT) remain comprehensive in their ability to cover most aspects of foreign investments — there is often friction with compliance especially due to fragmented governance across sectors.²⁵ The distinction between Automatic and Government Approval routes is key: automatic route permits a process of ease-of-business where post-facto reporting could be accepted in sectors where high thresholds exist for liberalisation whereas government approval would require rigid scrutiny under various administrative ministries, for sensitive industries that pose perceived strategic or competitive risks associated with investor participation from abroad.²⁶ The modern liberalization landscape in India would argue that these entry channels have widened substantially since factors such as the 2016 policy reforms, which sought to raise or eliminate foreign equity caps across a broad

²¹ Athukorala, Premachandra, *The Sri Lankan Economy*: (2017). doi:10.22617/tcs178786-2.

²² Konara, P. and Wei, Y. (2017) “Foreign Direct Investment As A Catalyst For Domestic Firm Development: The Case Of Sri Lanka,” *Transnational corporations*, 23(3), pp. 1–32. doi:10.18356/a4a49e57-en.

²³ Dias, S. (2022) “The Impact of Investment Treaties on the Rule of Law in Sri Lanka,” in *Cambridge University Press eBooks*. Cambridge University Press, pp. 204–234. doi:10.1017/9781009152990.007.

²⁴ Borin, A. and Stefano, E.D. (2016) “Economic Reforms in China and India: Past and Future Challenges,” *SSRN Electronic Journal* [Preprint]. doi:10.2139/ssrn.2845355.

²⁵ Tamhane, V. (2026) “Analysing Governance of Government Regulations across Sectors and Risk of Compliance Fatigue on National Economic Security,” *Journal of Regulatory Science*, 14(1). doi:10.21423/jrs.regsci.141319.

²⁶ Shobha, K. (2012) “FDI inflows in India,” *International Journals of Marketing and Technology*, 2(12), pp. 191–198. Available at: <http://www.indianjournals.com/ijor.aspx?target=ijor:ijmt&volume=2&issue=12&article=014> (Accessed: October 2025).

range of sectors including pharmaceuticals and civil aviation.²⁷

On the other hand, Sri Lanka continues and will continue to be shaped by the pressure on her legal system to rearrange domestic statutes in line with international commitments like those made under the Indo Sri Lanka Free Trade Agreement—statutory conflicts and administrative impediments have repeatedly hampered arrangements made for Foreign Direct Investment.²⁸ Though the single-window clearance mechanism of the Board of Investment (BOI), yet often perceived as a bureaucratic hassle in view of inter-agency coordination hurdles, ostensibly seeks to mitigate administrative difficulties for investors, it routinely finds itself facing procedural bottlenecks.²⁹ Due to political instability, macroeconomic shocks and multiple line ministries, in some cases Sri Lanka has not been able to fully deliver on the statutory commitments outlined by the BOI Act.³⁰

In Sri Lanka, the government is now legally committed to structural economic targets under the 2024 Economic Transformation Act (ETA) set by the IMF; gross FDI/net FDI must hit at least 5% of GDP by 2030 for example, with 40% flowing into exports.³¹ Thus, this legislative directive constitutes a tactical turn to embed an export-led growth regime that recognizes a regional consensus that lasting macroeconomic stability requires a swing from debt-funded consumption to high-grade capital inflows.³²

One Stop, Two Decisions: Rationalising Investment Incentives: Ending the Era of Opaque Concessions and Fiscal Accountability-Sunset of Strategic Development Projects (Strategic Development Projects (SDP)) Act, 2008: Until 2022 Sri Lanka had been attracting FDI with the support of very comprehensive long term tax exemptions/subsidisation attracted through the SDP Act of 2008.³³ The post-crisis legal structure seems to have strongly limited these

²⁷ Sakharov, A. (2017) “BRICS Investment Policies through the PFI Perspective,” *International Organisations Research Journal*, 12(3), pp. 160–181. doi:10.17323/1996-7845-2017-03-160.

²⁸ Yadav, M. and Singh, A. (2025a) “Domestic Legal Barriers to Implementing the Indo-Sri Lanka Free Trade Agreement,” *Zenodo (CERN European Organization for Nuclear Research)*. European Organization for Nuclear Research. doi:10.5281/zenodo.17942566.

²⁹ Iriansyah, I. and Yalid, Y. (2026) “Normative Inconsistencies In Indonesian Investment Law: Implications For Legal Certainty And The Investment Climate,” *Corporate Law & Governance Review*, 8(1), pp. 88–88. doi:10.22495/clgrv8i1p7.

³⁰ Konara, P. and Wei, Y. (2017) “Foreign Direct Investment As A Catalyst For Domestic Firm Development: The Case Of Sri Lanka,” *Transnational corporations*, 23(3), pp. 1–32. doi:10.18356/a4a49e57-en.

³¹ Athukorala, P. (2024c) “The Sri Lankan Economy: From Optimism to Debt Trap,” *Asian Economic Policy Review*, 20(1), pp. 151–171. doi:10.1111/aep.12483.

³² Moore, M. (2017) “The Political Economy of Long-Term Revenue Decline in Sri Lanka,” *SSRN Electronic Journal* [Preprint]. doi:10.2139/ssrn.3120545.

³³ Athukorala, P. (2024b) “The Sri Lankan Economy,” in *Routledge eBooks*. Informa, pp. 162–175.

discretionary tax holidays. The Inland Revenue Amendment Acts established uniform, concessionary corporate tax rates and reduced the frequency of arbitrary fiscal favours directed by ministers, thus encouraging the stabilization of government revenues.

State ownership and control over electricity generation was dismantled with the passage of the Sri Lanka Electricity Act in 2015, opening up engineering and other opportunities for leading foreign independent power producers to enter utilities and green hydrogen.³⁴ The regimes under the Colombo Port City Economic Commission Act, No. 11 of 2021 have been fully implemented since 2022 apparently as an international competitive, multi-currency special economic zone insulated from domestic macroeconomic shocks.

IV. Bureaucratic Redesign and Enforcement Realities Under Political Shifts (2024–2026)

The BOI Accelerator Program and the "Invest Sri Lanka" initiatives, is a paradigm shift in attracting foreign capital – moving away from spending on passive administrative regulation and towards actively facilitating an ecosystem.³⁵ The Board of Investment holds considerable powers on tax relief and project approval; the agency has been redesigned since the early 1990s but any significant infrastructure projects are generally subject to high-level cabinet scrutiny. The "Invest Sri Lanka" campaign is a modern tool for strong investment generation #but enables us to create a superior investment climate through institutional reforms geared towards boosting the both quality and quantity of Foreign Direct Investment (FDI).

At the centre of this evolution is the Board of Investment (BOI) Accelerator Program, which serves as a key hub to high growth sectors — like information and communication technology.³⁶ Studies show the significance of government accelerators in Sri Lanka for promoting entrepreneurial mindset and enabling learning networks that further enable infant organisations to scale. Additionally, in light of the economic crises that characterized the last four years (2019–2023) and continued until 2026, these institutional support networks may have been critical to compensate for policy fragmentation by easing the way for much needed

doi:10.4324/9781003300991-17.

³⁴ Imports and Exports (Control) Regulations No. 02 of 2023, Gazette Extraordinary No. 2312/78 (Jan. 1, 2023) (Sri Lanka) (promulgated by Ranil Wickremesinghe, Minister of Finance).

³⁵ Konara, P. and Wei, Y. (2017) "Foreign Direct Investment As A Catalyst For Domestic Firm Development: The Case Of Sri Lanka," *Transnational corporations*, 23(3), pp. 1–32. doi:10.18356/a4a49e57-en.

³⁶ Athukorala, P. (2024c) "The Sri Lankan Economy: From Optimism to Debt Trap," *Asian Economic Policy Review*, 20(1), pp. 151–171. doi:10.1111/aepr.12483.

capabilities related to digital transformation and access to global markets. As a result, these contemporary reforms focus on fiscal incentives needing to be rationalized, transparent, and time-bound if Sri Lanka is going to successfully plug itself into global manufacturing value chains.

V. The National People's Power (NPP) Governance

Another aspect of the governance of the NPP during the 2024–2026 period is a possible transition to a rules-based investment framework designed to replace with their mechanisms — specifically, by accounting for and rectifying these "leader-driven" models that have stunted foreign capital results in Sri Lanka.³⁷ This period is interesting because of the difficulty of balancing policy continuity —an element which is regarded essential to exit from the sovereign debt crisis with regard to a new mandate for reviewing opaque procedures enforced through earlier discretionary powers like those implemented under the 2008 Strategic Development Projects Act.³⁸ It is often reiterated by scholars that the restored Board of Investment as a "one-stop-shop" agency will be crucial to integrating Malaysia's national manufacturing sector into international production networks.³⁹

But the administration has to avoid the traps of "dirigiste" regimes, where ministerial meddling in private firms previously resulted in renationalizations and asset-stripping investor trust.⁴⁰ The economic crisis now has also led to the renewed demand for policy with "inward focus", in which wary critics insist that local entrepreneurs and local traditional knowledge can no longer depend on excessive reliance on foreign capital.⁴¹ Is balancing these pressures successfully key to overcoming the debt trap and high fiscal deficits enabling investment stabilization that does not suffer from the same policy reversals as before?⁴²

³⁷ Athukorala, P. (2024a) "The Sovereign Debt Crisis in Sri Lanka: Anatomy and Policy Options," *Asian Economic Papers*, 23(2), pp. 1–28. doi:10.1162/asep_a_00887.

³⁸ Kamardeen, N. and Panditaratne, D. (2021) "The Regulation of Foreign Investments in Sri Lanka," in *Cambridge University Press eBooks*. Cambridge University Press, pp. 160–180. doi:10.1017/9781108675772.010.

³⁹ *Id.* at 23

⁴⁰ Rathnayake, S. (2023) "A Call For A Change Of Focus In India's FDI Policies: Lessons From The Recent Economic Crisis In Sri Lanka," *GARI International Journal of Multidisciplinary Research*, 9(3). doi:10.63572/gari5138.

⁴¹ Konara, P. and Wei, Y. (2017) "Foreign Direct Investment As A Catalyst For Domestic Firm Development: The Case Of Sri Lanka," *Transnational corporations*, 23(3), pp. 1–32. doi:10.18356/a4a49e57-en.

⁴² Konara, P. and Wei, Y. (2017) "Foreign Direct Investment As A Catalyst For Domestic Firm Development: The Case Of Sri Lanka," *Transnational corporations*, 23(3), pp. 1–32. doi:10.18356/a4a49e57-en.

Founded in the early 1980s as a joint venture with the Government of India and Suzuki Motor Corporation of Japan (now Maruti Suzuki India Limited), Maruti Udyog Limited was to create an Indian auto giant, who transformed own automobile landscape and through which created that together with themselves was one significant step towards modernization associated with India's automotive industry. It directly nurtured local components manufacturers, at great expense.⁴³

The repurchasing of Sri Lankan Airlines, following a spat involving government personnel atop people who had purchased tickets on flights, is an example of overreach by the government and contrasts sharply with how India seeks to nurture emerging domestic market players in partnership with foreign ones.⁴⁴

VI. Conclusion

In the existing academic discourse, these transitions are often complemented by contrasting state-led development that is regarded as a necessarily inefficient precursor to market integration.⁴⁵ On the other end of the scale, newer literature challenges this simplistic binary by placing emphasis on domestic institutions and timing of integration into global policy networks as determining whether liberalisation was 'successful' or not.⁴⁶ Illustratively, India's calibrated integration balanced global mandates with domestic industrial priorities across the manufacturing and technology sectors.⁴⁷ Sri Lanka's early openness tended to contend with the compounding pressures of persistent current account deficits and long-term external debt accumulation.⁴⁸

⁴³ Ghosh, T. and Parab, P. (2021) "Assessing India's Productivity Trends And Endogenous Growth: New Evidence From Technology, Human Capital And Foreign Direct Investment," *Economic Modelling*, 97, pp. 182–195. doi:10.1016/j.econmod.2021.02.003.

⁴⁴ Dmytriiev, I. *et al.* (2019) "The World Experience and a Unified Model for Government Regulation of Development of the Automotive Industry," *Public Policy And Administration*, 18(3), pp. 46–58. doi:10.5755/j01.ppaa.18.3.24720.

⁴⁵ Sáez, L. (1998) "A Comparison of India and China's Foreign Investment Strategy toward Energy Infrastructure." Available at: <https://www.jstor.org/stable/4192754> (Accessed: November 2025).

⁴⁶ Prabhakar, A.C. (2025) "Divergent Paths to Prosperity: A Comparative Analysis of China and India's Development Since 1980," *Journal of International Cooperation and Development*, 8(1), pp. 15–15. doi:10.36941/jicd-2025-0002.

⁴⁷ Kumar, P.J. (2025) "The Impact Of Global Economic Policies On India's Domestic Reforms," *International Journal of Foreign Trade and International Business*, 7(2), pp. 31–34. doi:10.33545/26633140.2025.v7.i2a.170.

⁴⁸ Gunaruwan, T.L. and Liyanage, P. (2024) "Sri Lanka's Foreign Exchange Crisis: An Examination of Causality Dynamics, Shedding Light on Suggestive Way-Out Strategies," *Sri Lanka Journal of Economic Research*, 11(2), pp. 39–68. doi:10.4038/sljer.v11i2.204.

This research suggests that the trajectory from protectionist frameworks to market-oriented systems may be fundamentally mediated by a nation's capacity to absorb foreign capital without compromising macroeconomic equilibrium.⁴⁹ Ultimately, these findings suggest that successful liberalization is not a uniform blueprint but rather a context-dependent process.⁵⁰ It is the quality of domestic institutions that determines whether capital inflows evolve into sustained economic development or temporary financial volatility.⁵¹ Consequently, policymakers should recognize that while financial openness often serves as a vital tool for overcoming domestic savings constraints, it typically requires a strategic, phased approach to ensure that the resultant investment flows effectively smooth consumption against exogenous shocks.⁵²

⁴⁹ Mody, A. and Murshid, A.P. (2004) "Growing Up With Capital Flows," *Journal of International Economics*, 65(1), pp. 249–266. doi:10.1016/j.jinteco.2004.02.003.

⁵⁰ Castro, R., Clementi, G.L. and Macdonald, G. (2004) "Investor Protection, Optimal Incentives, and Economic Growth," *The Quarterly Journal of Economics*, 119(3), pp. 1131–1175. doi:10.1162/0033553041502171.

⁵¹ Magedaragamage, N.C. (2015) Domestic Financial Development and External Financial Openness In Sri Lanka : Assessing The Case For Greater External Liberalization, *Research Repository (Kingston University London)*. Kingston Hospital NHS Trust.

⁵² Bekaert, G., Harvey, C.R. and Lundblad, C. (2006) "Growth Volatility And Financial Liberalization," *Journal of International Money and Finance*, 25(3), pp. 370–403. doi:10.1016/j.jimonfin.2006.01.003.

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